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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

DTX5028 – TAXATION 2 (For Diploma Students Only)

8 MARCH 2018
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 14 pages (13 pages with 5 Questions and 1 page for appendix).
2. Answer ALL questions.
3. Write your answers in the answer booklet provided.

QUESTION 1

SS Manufacturing Sdn Bhd is a Malaysian resident company, involves in manufacturing office furniture. The company has a paid up capital of RM8 million and seventy-five percent of these shares are held by Malaysian citizens. The company which closes the accounts on 30 June each year, has appended its result for the year ended 30 June 2017.

The company has provided the following notes and information to the accounts:

SS Manufacturing Sdn Bhd Statement of Profit or Loss for the year ended 30 June 2017			
	Note	RM'000	RM'000
Sales			528,000
Less: Cost of sales			287,000
Gross profit			241,000
Add: Other income			
Dividend	1	55	
Interest		48	
Rental income		54	157
			<u>241,157</u>
Less: Expenses			
Remuneration	2	1,560	
Miscellaneous	3	124	
Loan interest	4	125	
Entertainment	5	610	
Depreciation		119	
Repairs and maintenance	6	425	
Bad and doubtful debts	7	852	
Motor vehicle expenses	8	114	
Lease charges	9	320	
Advertisement, publicity and patent	10	850	
Professional fees	11	78	
Insurance	12	110	
Rental	13	48	
Donation	14	200	5,535
Profit before taxation			<u><u>235,622</u></u>

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Notes to the accounts:

1. Dividend

The company had invested in a local company listed on Bursa Malaysia. In May 2017 it received a single tier dividend of RM30,000 from the investment.

The company also received a foreign dividend of RM25,000 from investment in a company in Taiwan where it exports some of its products, and this money was remitted to Malaysia in February 2017.

2. Remuneration

The remuneration charges consist of the following

	<u>Particulars</u>	<u>RM'000</u>
i.	Employer's salary (including disabled 80,000)	900
ii.	EPF contribution	275
iii.	One free overseas trip (director)	35
iv.	Bonus (1.5 months)	300
v.	Meal allowance	50
	Total	1,560

3. Miscellaneous

This item includes the following:

i.	Traffic fines paid for Wan Musa (managing director)	RM 4,000
ii.	Tuition fees for Wan Musa's son	3,000
iii.	Income tax appeal	50,000
iv.	Penalty for late submission of tax return	67,000

4. Loan interest

RM40,000 is an interest on a loan taken for an investment in a company in Vietnam. The balance of RM85,000 was interest paid to a local bank for a loan for the working capital.

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5. Entertainment

- i. Entertainment of suppliers amounted to RM150,000.
- ii. Disbursement of RM180,000 was made to the marketing and sales staff on their entertainment expenses incurred on existing customers of the company.
- v. The company spent RM40,000 for its annual dinner of which the staff and their family were invited.
- iv. Free gifts to customers purchasing the company's products during festive occasions amounted to RM80,000.
- vi. RM160,000 was incurred for promoting the company's new product paid to various dealers during the year.

6. Repairs and maintenance

The company extended its administrative office during the year at a cost of RM200,000. The factory roof was badly damaged during recent storm. The company spent RM20,000 to replace the entire roof with similar roof. The company also used of RM105,000 refers to the maintenance of the machinery. The balance of RM100,000 were used to renovate the pantry room in office.

7. Bad and doubtful debts

- i. Long overdue trade debts amounting RM182,000 were written off during the year.
- ii. Generally the company found that about 10% of its outstanding debtors have difficulty settling the debts and accordingly made provisions for trade of RM440,000 in the accounts for the year.
- iii. Special provision of bad debt is made for RM230,000.

8. Motor vehicle expenses

- i. RM22,000 relates to traffic offences by the company's marketing staff.
- ii. The company acquired a damaged lorry at a bargain price of RM5,000 from a motor dealer and spent RM40,000 for repairs.
- iii. RM52,000 refers to the maintenance of the company's car used in the business.

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9. Lease charges

- i. A saloon car for occasional business use was leased in July 2016 for which RM70,000 was paid during the year. (The cost was RM950,000 when new.)
- ii. A machine was leased during the year for RM250,000 to replace a faulty machine for two months, pending its repair.

10. Advertisement, publicity and patent

- i. RM400,000 was spent on advertising the company's products in local dailies.
- ii. RM150,000 was spent to promote the company's own brand name in the course of sponsoring an approved international event held in Putrajaya, Malaysia.
- iii. International Standardization Activity approved by minister amounting to RM110,000.
- iv. Contribution for the provision of library facilities which are open to public amounting to RM190,000.

11. Professional fees

Other details of the professional fees incurred during the year are as follows:

	<u>Particulars of expenditure</u>	<u>RM'000</u>
i.	Secretarial fees	10
ii.	Income tax filing fees	15
iii.	Accounting fees	5
iv.	Feasibility study for business expansion	40
v.	Audit fee	4
vi.	Non-trade debt collection	4
	Total	78

12. Insurance

The company paid premiums of RM30,000 to a local insurance company for the import of raw materials and RM35,000 for the export of furniture to Vietnam. RM45,000 was premium to cover its trading stocks, machinery and business premises from flood and fire.

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13. Rental

The company rented a premise and the amount includes the advance rental for July, August, September and October 2017 as the landlord required urgent cash.

14. Donation

The company made a cash donation of RM200,000 to the Federal Government in May 2017.

17. Other information:

For the year of assessment 2017, the company is claiming capital allowance of RM45,600,000 on its qualifying plant and machinery and other assets used in the business. Other than that, the company also claimed balancing allowance of RM32,000,000 and balancing charge of RM30,400,000.

Required:

Based on the information given, compute the chargeable income of SS Manufacturing Sdn Bhd for the year of assessment 2017.

Note: i. Your computation should start with the profit before taxation figure and follow the description used in the profit and loss account, and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making. ii. Round up all figures to the nearest thousand.

[TOTAL 20 MARKS]

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QUESTION 2**Part A**

En. Zulfikri had acquired a landed property from Mr. David for RM274,725. He signed the agreement on 15 July 2014 and settled the payment using a bank loan on 30 September 2014. The property ownership was then transferred to his name on 30 November 2014. In acquiring the property, En. Zulfikri incurred stamp duty of RM4,495 and legal fees of RM2,373.

Upon acquisition, En. Zulfikri spent RM37,851 on extending and renovating the property. On 10 April 2015, the property was partially damaged by fire and he received insurance compensation of RM48,420. In September 2015, the property was flooded and he managed to make an insurance recovery of RM12,088 from his insurer.

In October 2016, En. Zulfikri was approached by a buyer to purchase the property who paid a deposit of RM6,600 and proceeded to make an application for a bank loan. The buyer however, was not successful in his application and as per the agreement, En Zulfikri then forfeited the deposit of RM6,600.

En. Zulfikri's ex-wife had filed a claim on the property and En Zulfikri retained a lawyer to successfully defend his right to total ownership. The legal fee was RM7,700.

En. Zulfikri sold the property to Jardin for RM354,200 and an agreement for the sale was signed on 15 April 2017. The payment was fully settled on 16 May 2017. The ownership was transferred to Jardin on 17 June 2017.

In securing a buyer for the property, En Zulfikri had incurred the following expenditure:

- a) valuation fee RM5,495
- b) brokerage fee RM7,692
- c) advertisement: RM977

En. Zulfikri had incurred an interest charge of RM51,318 on the bank loan he took to buy the property.

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Required:

In relation to the Real Property Gains Tax 1976 (as amended), compute the chargeable gain arising from the disposal of the property, after exemption under Schedule 4 of the said Act.

(10 marks)

Part B

PT Sdn Bhd which was incorporated and resident in Malaysia is a company involves in the property development and construction business. In June 2014 the company was awarded a two-year contract to build a theme park in Kangar, Perlis and a 2-storey shopping mall in Bangkok, Thailand. The company obtained a loan from Bank of Thailand, a non-resident bank to finance the projects.

The following interest was paid to Bank of Thailand on 21 May 2016:

- i. RM320,000 to finance the project in Kangar, Perlis.
- ii. RM480,000 to finance the project in Bangkok, Thailand.

In July 2016 the company entered into an agreement with a company from Japan, Tamiya Ltd for the rental of a plant and machinery, supplying of materials and technical advice for its project in Kangar, Perlis. PT Sdn Bhd incurred the following expenses:

- i. Rental of plant and machinery RM440,000
- ii. Supplying of materials RM3,900,000
- iii. Technical advice RM270,000

(The engineer at Tamiya Ltd provide PT Sdn Bhd on the technical advice of the handling of the machine through a video conference in Japan).

In November 2016, PT Sdn Bhd engaged Ayumi Hamasaki, a singer from Japan to perform during the launching of its new theme park and shopping mall in Kangar, Perlis and Bangkok, Thailand respectively. The following are the fees paid to Ayumi Hamasaki:

- i. RM70,000 for the performance in Kangar, Perlis.
- ii. RM100,000 for the performance in Bangkok, Thailand.

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Required:

- a) Discuss whether each of the above payment is subject to withholding tax. Give reasons for your answers. (8 marks)
- b) Advise PT Sdn Bhd on the tax implications if the company paid the amount of withholding tax on the interest paid to Bank of Thailand to the tax authority on 28 August 2016 (calculation is required). (2 marks)

[TOTAL 20 MARKS]**QUESTION 3**

Medina and Zam have incorporated their partnership business named MediZam Partners since 2014 (supplying paintings and arts equipments). On 1 April 2017, Roy has entered as new partner. Given below are the accounts of the partnership.

Income Statement for the year ended 31 December 2017

	RM	RM
Sales turnover		205,000
Interest income		6,000
Total income		<u>211,000</u>
Less:		
Approved donation	33,000	
Repairs	5,000	
Depreciation	7,500	
Drawing and exhibition	20,000	
Less: Partner's expenses		
Salary of partners	37,200	
Interest on capital	3,325	106,025
Net profit		<u><u>104,975</u></u>

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Additional information:

1. The profit sharing ratio is as follows:
 - a. From 1/1/2017 to 31/3/2017
Medina : 2/3;
Zam : 1/3
 - b. From 1/4/2017 to 31/12/2017
Medina : 3/6
Zam : 2/6
Roy : 1/6
2. Salary partners:
 - a. Medina : RM1,500 per month
 - b. Zam : RM1,000 per month
 - c. Roy : RM800 per month
3. Capital partners:
 - a. Medina : RM30,000 (interest on capital : 7%)
 - b. Zam : RM20,000 (interest on capital : 5%)
 - c. Roy : RM10,000 (interest on capital : 3%)
4. Capital allowance during the year amounted to RM60,000.

Required:

- a) Calculate the provisional adjusted income for the partnership in 2017. (4 marks)
- b) Calculate the divisible income for the partnership in 2017. (2 marks)
- c) Calculate adjusted income for the partnership in 2017. (11 marks)
- d) Calculate the statutory income for the partners in the YA 2017. (3 marks)

[TOTAL 20 MARKS]

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QUESTION 4**Part A**

Alam Avenue Sdn Bhd is an established manufacturer of steel product for the construction industry in Kuantan, Pahang. The company makes up its accounts annually to 31 December. Below were the capital expenditure incurred by the company:

Constructed Building

Particulars	RM
Land	850,000
Construction costs	250,000
Professional fees (20% related to land)	30,000
Internal road and car park	50,000
Architect's fees	4,000
Building approval fee	3,000
Stamp duty	2,000
Wiring and plumbing	127,000
Landscape	200,000
TOTAL	1,516,000

The building was completed and brought into business use on 1 August 2014. The usage of the building was as follows:

Administrative office	20%
Factory	80%

Purchased Building

On 1 September 2015, the company acquired a building under paragraph 42A(1) of Schedule 3, Income Tax Act 1967 for living accommodation of its factory workers amounted RM1,050,000 (of which RM650,000 was related to cost of land).

Required:

Compute the industrial building allowance of constructed and purchased building for Alam Avenue Sdn Bhd for the relevant years of assessment up to the year of assessment 2016.

(10 marks)

Continued...

Part B

Rapid KL Services Sdn Bhd is a local resident company operating a lorry transport business. For the company financial year ended 31 January 2017, the company incurred the following expenditure on the acquisition of several assets to be used in the transport business:

Assets	Date of purchased	RM'000
Trailer	1 September 2014	600
Lorry	10 March 2016	350

Additional information:

1. The trailer costing RM550,000 was acquired under a hire purchase scheme on 1 September 2014 with a down payment of RM180,000 and the balance is to be paid in equal instalments over the period of 48 months, being the first instalment on 1 October 2014. The hire purchase interest was included in hire purchase loan of RM106,000.
2. The lorry was bought with a loan from RHB Bank.

Required:

- a) Compute the capital allowance due to the company up to year of assessment 2017.
(9 marks)
- b) Briefly explain TWO (2) situations where balancing charges might arise. (1 mark)

[TOTAL 20 MARKS]

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QUESTION 5

Under Public Ruling No. 11/2014, a person who has been granted a concession or license and carries on a business of timber extraction is entitled to claim forest allowances on expenditure incurred on the construction in the forest of:

- (a) roads or buildings which are used for the purposes of the business of extracting timber. As a concession, bridges or jetties constructed for such business would also qualify for the allowances specified; or
- (b) buildings provided for the purposes of welfare or living accommodation of employees engaged in the extraction of timber.

Case 1

Timberland Sdn Bhd was granted a timber concession by the Pahang state government in March 2014. The period of concession is for 6 years. Timberland started its business of timber extraction in September 2014. Normally, it closes accounts on 30 June every year, following the closing date of the holding company's accounts.

Between July 2014 to September 2014, Timberland incurred expenditure on the construction of:

Date	Expenditure	RM
3 July 2014	Construction of laterite road	80,000
7 August 2014	Construction of site office in forest	120,000
1 September 2014	Construction of worker's quarters	200,000

Case 2

Refer to case 1, except Timberland ceased its business in December 2017 and the forest is disposed of to Agroland Sdn Bhd for a consideration of RM600,000.

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Case 3

Refer to case 2, after disposing and worked out from forest business, Timberland made an election to have the amount of forest charges spread back.

Required:

- a) Calculate forest allowance that can be claimed for 6 years on the above expenditures.
(6 marks)
- b) Calculate forest allowance and forest charge that can be claimed up to the year of assessment of cessation in 2017.
(5 marks)
- c) Calculate forest allowance and forest charge that can be claimed up to the year of assessment when Timberland made election.
(9 marks)

[TOTAL 20 MARKS]

[GRAND TOTAL 100 MARKS]

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2017:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Forest Allowances YA 2017:

Capital expenditure incurred on:	Rate
(a) the construction of other building (smoke house, estate office)	10%
(b) the construction of office	10%
(c) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%

Rates of Real Property Gains Tax: *Effective 1st January 2014 onwards*

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

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